

#### GENERAL INFORMATION

*The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of Dakota Western Bank, Bowman, North Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of March 11, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated Outstanding.

The bank's outstanding rating is based on several factors. First, the bank has maintained a high loan-to-deposit ratio since the previous evaluation. Second, the bank has a substantial majority of its small business and agricultural and consumer loans in its assessment area. Third, the bank underwrites a significant portion of its loans to borrowers of different income levels and to businesses of different sizes. Finally, the bank actively lends in all nine block numbering areas ("BNAs") located in the bank's assessment area.

*The following table indicates the performance level of Dakota Western Bank, Bowman, North Dakota, with respect to each of the five performance criteria.*

SMALL INSTITUTION ASSESSMENT CRITERIA	Dakota Western Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior evaluation.		

## **DESCRIPTION OF INSTITUTION**

Based on its size and financial condition, the bank is able to effectively meet the credit needs of the communities located in its assessment area. The bank's main office is located in Bowman, North Dakota, with an office for opening new accounts and taking deposits located in Rhame, North Dakota. Bowman, located in Bowman County, is in the southwestern corner of North Dakota. Bowman County borders Montana on the west and South Dakota on the south.

According to the December 31, 1995, Report of Condition ("ROC"), the bank had total assets of \$40.8 million and total deposits of \$35.5 million. Since the previous evaluation, the bank's assets have increased by approximately \$5 million, and its deposits have increased by about \$4 million. The primary reason for these increases has been a change in ownership of the other financial institution in Bowman. As a result of this change, a number of borrowers and depositors have moved their accounts to the bank. According to the December 31, 1995, ROC, the bank's loan portfolio is approximately 68% agricultural, 8% commercial, 8% consumer, 8% consumer real estate, and 8% commercial real estate.

The bank offers many types of loan and deposit products that serve assessment area credit needs. Its agricultural products include operating, crop, livestock, and farm real estate loans. The bank provides Farm Service Agency and Small Business Administration-guaranteed loans. In addition, the bank participates in a number of North Dakota-sponsored farm and small business guaranteed loan programs. The bank also underwrites consumer, real estate, and credit card loans.

The bank has a new paying and receiving station in Rhame, North Dakota. The service hours of the Rhame and Bowman, North Dakota, locations are sufficient to meet the credit and deposit needs of the assessment area.

## **DESCRIPTION OF THE ASSESSMENT AREA FOR DAKOTA WESTERN BANK, BOWMAN, NORTH DAKOTA**

The bank's assessment area consists of nine BNAs and covers a sparsely populated seven-county area. These BNAs encompass one county in Montana, three counties in northwestern South Dakota, and three counties in southwestern North Dakota. In addition, the assessment area includes the North Dakota cities of Bowman and Hettinger. Bowman is located in Bowman County and Hettinger is located in Adams County. Bowman and Slope counties border Montana and are contiguous to Fallon County, Montana. Bowman and Adams counties in North Dakota border South Dakota and are contiguous to Harding and Perkins counties, South Dakota. Butte County is directly south of Harding County, South Dakota. The bank's Bowman and Rhame offices are located in Bowman County.

According to 1990 census data, the assessment area has a total population of 19,004. Bowman is the largest city in the bank's assessment area, with a population of 1,972. Hettinger is the next largest, with a total population of 1,727. These two cities comprise approximately 20% of the assessment area's total population. According to bank staff, the assessment area has been experiencing a population decline. In particular, bank staff indicated that Adams County has experienced a significant decline in population. The major employers in Bowman are the local school system and county government.

CRA divides income into four categories: low income, moderate income, middle income, and upper income. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower's or

geography's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50%, but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80%, but less than 120% of the statewide nonmetropolitan median income.

An individual with an income that is 120% or more of the statewide nonmetropolitan median income is considered upper income. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography. As previously mentioned, the assessment area covers a three-state area.

The assessment area's median household income is \$20,764. Its median family income is \$25,143. According to the 1990 census, the median family income for the statewide nonmetropolitan areas of Montana is \$27,352, North Dakota's is \$26,195, and South Dakota's is \$25,547. The 1990 census data indicates that 23% of the assessment area's households are low income, 18% are moderate income, 20% are middle income, and 39% are upper income. In addition, the minority population of the assessment area is only 1.5% of the total population.

Eight BNAs in the assessment area are classified as middle income. The BNA for Slope County is classified as moderate income. Slope County is north of Bowman County. The largest town in Slope County is Amidon, which has a population of 140. The total population for Slope County is 907 or 5% of the assessment area population.

The assessment area does not have a manufacturing base; the economy is based primarily on agricultural production. However, according to the bank and contacts, a large oil deposit has been discovered that spreads across the bank's assessment area. As a result, the bank has been conducting mineral rights seminars for consumers.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank has done an outstanding job of meeting the credit needs in its assessment area. The criteria detailed below were reviewed in determining this rating.

#### Loan-to-Deposit Ratio Analysis

The bank's lending in its assessment area exceeds the standards for satisfactory performance. The quarterly average of the bank's loan-to-deposit ratio is 65% since the previous evaluation. The following chart, based on quarterly ROC data, reflects that the loan-to-deposit ratio has been consistently more than 60% since the last evaluation:

<b>Date</b>	<b>Gross Loans (In thousands)</b>	<b>Deposits (In thousands)</b>	<b>Loan-to-Deposit Ratio</b>
December 31, 1995	\$23,024	\$35,583	65%
September 30, 1995	\$22,958	\$33,221	69%
June 30, 1995	\$21,987	\$32,434	68%
March 31, 1995	\$20,774	\$33,932	61%
December 31, 1995	\$19,520	\$31,829	61%

The bank's gross loans and deposits have been increasing since the previous evaluation. The bank attributes this growth to customers moving their accounts to the bank from the competing financial institution in Bowman, which had undergone an ownership change. The bank's ratio significantly exceeds the competitor bank's average quarterly loan-to-deposit ratio of 39%.

Since the last evaluation, the bank provided funds for one significant community development loan. Bank management serves on the Bowman County Economic Development Corporation ("BCED"). The BCED was the sponsor organization that brought the state-of-the-art Bowman County Market to the assessment area. According to contacts, this project required creative financing, whereby the bank served as lead lender and coordinated the loan package with government, county, and corporate agencies. This facility is designed to market cattle, sheep, and hogs on a weekly basis. In addition, it will hold special bull, bred cattle, and horse sales throughout the year. The community-owned facility employs 25 part-time and 5 full-time employees.

#### Lending in the Assessment Area

The bank's lending in its assessment area exceeds the standards for satisfactory performance. A review of a statistical sample of bank loans originated in the past six months reveals that a substantial majority of them were made inside the assessment area. Examiners reviewed the bank's two major loan product categories (agricultural/small business and consumer loans) by analyzing the number and dollar amount of new loans originated inside and outside the assessment area.

The following table shows the percentage of the total number and dollar volume of reviewed loans that were inside the assessment area.

Percentage of Loans in Assessment Area		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans
Small Business/Agricultural Loans	96%	98%
Consumer Loans	94%	96%

The numbers in the table indicate that almost all of the bank's borrowers live within its assessment area.

#### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's lending to borrowers of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance. The income level for consumer loans is determined based on the nonmetropolitan median family income for the state in which the consumer resides. The bank's distribution of loans across its assessment area by income level is illustrated in the following chart.

Distribution of Consumer Loans in the Assessment Area by Borrower Income Level				
	Low Income	Moderate Income	Middle Income	Upper Income
Percentage of Total Loans	50%	17%	12%	21%
Percentage of Total Loan Amounts	46%	11%	13%	30%

The data in the table indicate that the bank provided 67% of the sampled consumer loans to low- and moderate-income individuals. This percentage significantly exceeds the percentage of low- and moderate-income individuals that live in the assessment area. As previously mentioned, approximately 40% of the assessment area's households have low and moderate incomes. The bank's percentage of loans originated and amounts borrowed exceed the assessment area percentages of low- and moderate-income households. The level of lending to low-income borrowers, those whose income is below 50% of the statewide median, is double the percentage of households that fall into this category. As such, this activity is particularly commendable.

The bank lends to small business and agricultural borrowers. All the business and agricultural loans in the sample were provided to entities or individuals with total gross annual revenues of less than \$1 million. Ninety-six percent of the small business and agricultural loan amounts were less than \$100,000. Three percent of these loans were in the \$100,000 to \$250,000 range, and the remaining 1% of loans were greater than \$250,000 but less than \$1 million. This distribution of small business and agricultural loans is consistent with the bank's asset size, legal lending limit, and the overall assessment area economic conditions.

#### Geographic Distribution of Loans

The bank's loans are well distributed throughout the assessment area. As previously mentioned, the bank's assessment area includes one BNA that is classified as moderate income. The table below indicates the bank's loan penetration in the moderate- and middle-income BNAs.

Distribution of Loans in the Assessment Area by BNA Income Level		
Loan Type	Moderate-Income BNA* (%)	Middle-Income BNA* (%)
<b>Small Business/Agricultural:</b>		
Total Number of Loans	5%	95%
Total Dollar Amount of Loans	4%	96%
<b>Consumer:</b>		
Total Number of Loans	5%	95%
Total Dollar Amount of Loans	16%	84%

\*The bank's assessment area includes only moderate- and middle-income BNAs.

The bank's lending pattern is reasonable given the demographic characteristics of the moderate-income BNA. As previously indicated, that BNA has only 907 residents and accounts for only 5% of the assessment area's total population.

The bank has originated a larger number of loans in this BNA than indicated in the table. However, a number of these loans were originated after the last evaluation but outside this review's sampling time frame. In addition, the bank has penetrated all of the BNAs in its assessment area.

#### GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws and regulations. In addition, the bank has not received any CRA complaints since the previous evaluation.

## **PUBLIC DISCLOSURE**

March 11, 1996  
Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Dakota Western Bank  
Name of Depository Institution

093801350000  
Identification Number of Institution

Bowman, North Dakota  
Address of Institution

Federal Reserve Bank of Minneapolis  
250 Marquette Avenue  
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion,



or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.